

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Southeast Macomb Sanitary District	County Macomb
Audit Date June 30, 2005	Opinion Date November 30, 2005	Date Accountant Report Submitted To State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 2601 Cambridge Court, Suite 500	City Auburn Hills	State MI	ZIP 48326
Accountant Signature 			

Southeast Macomb Sanitary District

**Financial Report
with Supplemental Information
June 30, 2005**

Southeast Macomb Sanitary District

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Independent Auditor's Report

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of Southeast Macomb Sanitary District (the "District") as of June 30, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southeast Macomb Sanitary District at June 30, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and employees' retirement system schedule of funding progress (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 30, 2005



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Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

Using this Annual Report

The Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. This is followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

Financial Overview

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintaining reserves for upgrading the efficiency of the system's infrastructure.

Condensed Financial Information

The following table presents condensed information about the District's financial position compared to the prior year. Total assets and total liabilities remained fairly consistent to prior year with the most significant change relating to the increase in investments due to an increase in net income and less investment during the current year in infrastructure. Overall, net assets increased by \$1,546,700. While treatment fee revenue increased 6 percent from the prior year to cover anticipated operating cost increases, interest income from investments increased significantly from the prior year due to increases in cash balances and investment rates from the prior year. This allowed current reserve levels to increase to cover future infrastructure and overhead needs without significant increases in charges to customers.

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

TABLE 1

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Assets				
Current assets	\$ 15,907,864	\$ 13,988,084	\$ 1,919,780	14
Capital assets	6,015,033	6,215,395	(200,362)	-3
Total assets	21,922,897	20,203,479	1,719,418	9
Liabilities				
Current liabilities	4,438,562	4,265,460	173,102	4
Accumulated employee benefits	59,688	60,064	(376)	-1
Total liabilities	4,498,250	4,325,524	172,726	4
Net Assets				
Invested in capital assets - Net of debt	5,935,790	6,215,395	(279,605)	-4
Unrestricted	11,488,857	9,662,560	1,826,297	19
Total net assets	<u>\$ 17,424,647</u>	<u>\$ 15,877,955</u>	<u>\$ 1,546,692</u>	10

The following table presents condensed information about the District's revenues and expenses compared to the prior year. The most significant change relates to an increase in nonoperating revenue, which escalated to 62 percent higher than 2004, due in large part to higher interest rates and greater cash balances due to less infrastructure investment during the current year. Other costs and revenue remained fairly consistent to the prior year.

TABLE 2

	Year Ended June 30		Change	
	2005	2004	Amount	Percent
Operating revenue - Treatment fees	\$ 14,263,467	\$ 13,426,488	\$ 836,979	6
Operating expenses:				
Cost of sewage disposal	11,965,326	12,148,486	(183,160)	-2
Operation and maintenance	864,160	830,808	33,352	4
Administrative and other	204,410	130,141	74,269	57
Total operating expenses	13,033,896	13,109,435	(75,539)	-1
Other nonoperating revenue	317,121	195,784	121,337	62
Net income	<u>\$ 1,546,692</u>	<u>\$ 512,837</u>	<u>\$ 1,033,855</u>	

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

Capital Asset and Infrastructure Planning

During the prior year, the District began two different capital improvement projects that continued into the current year. These two projects served to improve the efficiency of the system and ease stress on two major drains operated by the system, namely the Nine Mile Road Drain Cleaning and the Eleven Mile Road Sanitary Relief Drain. The cost of these projects was paid for by current resources of the District.

Economic Factors and Next Year's Budgets and Rates

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow. The District's budget for the year ending June 30, 2006 forecasts consistent volume in sewage flow and, therefore, costs.

Contacting the District's Management

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District's offices.

Southeast Macomb Sanitary District

Statement of Net Assets June 30, 2005

Assets

Cash and cash equivalents (Note 3)	\$ 11,201,522
Investments (Note 3)	2,262,416
Accounts receivable	2,392,359
Accrued interest receivable	23,436
Prepaid insurance	28,131
Capital assets (Note 4):	
Subject to depreciation	79,243
Not subject to depreciation	<u>5,935,790</u>
 Total assets	 21,922,897

Liabilities

Accounts payable	4,424,839
Accrued payroll and related taxes	13,723
Accumulated employee benefits	<u>59,688</u>
 Total liabilities	 <u>4,498,250</u>

Net Assets

Invested in capital assets	5,935,790
Unrestricted	<u>11,488,857</u>
 Total net assets	 <u><u>\$ 17,424,647</u></u>

Southeast Macomb Sanitary District

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

Operating Revenue - Treatment fees	\$ 14,263,467
Operating Expenses	
Cost of sewage disposal	11,965,326
System maintenance and operation	864,160
General and administrative	34,735
Depreciation	<u>169,675</u>
Total operating expenses	<u>13,033,896</u>
Operating Income	1,229,571
Nonoperating Revenue	
Interest income	322,369
Loss on disposal of assets	<u>(5,248)</u>
Total nonoperating revenue	<u>317,121</u>
Net Income	1,546,692
Net Assets - Beginning of year	<u>15,877,955</u>
Net Assets - End of year	<u><u>\$ 17,424,647</u></u>

Southeast Macomb Sanitary District

Statement of Cash Flows Year Ended June 30, 2005

Cash Flows from Operating Activities

Cash received from customers	\$ 13,579,002
Cash payments to suppliers for goods and services	(11,768,234)
Cash payments to employees for services	<u>(898,099)</u>
Net cash provided by operating activities	912,669

Cash Flows from Investing Activities

Interest received on investments	311,007
Net sale and maturities of investments	<u>399,772</u>
Net cash provided by investing activities	<u>710,779</u>

Net Increase in Cash and Cash Equivalents 1,623,448

Cash and Cash Equivalents - July 1, 2004 9,578,074

Cash and Cash Equivalents - June 30, 2005 \$ 11,201,522

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 1,229,571
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	169,675
Changes in assets and liabilities:	
Increase in accounts receivable	(684,465)
Increase in prepaid expenses	(277)
Increase in accounts payable	197,092
Increase in accrued payroll and other accruals	<u>1,073</u>
Net cash provided by operating activities	<u><u>\$ 912,669</u></u>

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2005

Note 1 - Nature of Business and Significant Accounting Policies

The Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The District has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2005

Note 3 - Cash and Investments (Continued)

The District has designated three banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The District's deposits and investment policies are in accordance with statutory authority.

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the District had \$13,077,495 of bank deposits (certificates of deposit, and checking and savings accounts) that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	2004	Transfers	Additions	Disposals	2005	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 79,243	\$ -	\$ -	\$ -	\$ 79,243	-
Construction in progress	3,584,447	(3,559,007)	-	(25,440)	-	-
Subtotal	3,663,690	(3,559,007)	-	(25,440)	79,243	
Capital assets being depreciated:						
Pump station	2,926,919	-	-	-	2,926,919	50
Interceptor	512,292	-	-	-	512,292	50
Sewer improvements	-	3,559,007	-	-	3,559,007	50
Nine Mile plant	37,887	-	-	-	37,887	15-30
Improvements	200,636	-	-	-	200,636	10-25
Paving and sewer	17,661	-	-	-	17,661	15
Trucks and equipment	88,117	-	-	(44,667)	43,450	3
Furniture and equipment	59,704	-	-	-	59,704	5-10
Subtotal	3,843,216	3,559,007	-	(44,667)	7,357,556	
Less accumulated depreciation for:						
Pump station	(707,346)	-	(61,250)	-	(768,596)	
Interceptor	(255,918)	-	(21,365)	-	(277,283)	
Sewer improvements	-	-	(70,000)	-	(70,000)	
Nine Mile plant	(32,785)	-	(1,992)	-	(34,777)	
Improvements	(157,419)	-	(6,030)	-	(163,449)	
Paving and sewer	(17,661)	-	-	-	(17,661)	
Trucks and equipment	(68,049)	-	(5,790)	39,420	(34,419)	
Furniture and equipment	(52,333)	-	(3,248)	-	(55,581)	
Subtotal	(1,291,511)	-	(169,675)	39,420	(1,421,766)	
Net capital assets being depreciated	2,551,705	3,559,007	(169,675)	(5,247)	5,935,790	
Total capital assets -						
Net of depreciation	\$ 6,215,395	\$ -	\$ (169,675)	\$ (30,687)	\$ 6,015,033	

Note 5 - Defined Benefit Pension Plan

Plan Description - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2005

Note 5 - Defined Benefit Pension Plan (Continued)

Funding Policy - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

Annual Pension Cost - For the year ended June 30, 2005, the District's annual pension cost of \$104,738 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004 using the individual aggregate actuarial funding method. Significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ 58,548	\$ 104,738	\$ 104,738
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

Note 6 - Postemployment Benefits

The District provides health care benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured health care plan, with no contribution required by the participants. The total expense for postemployment health care benefits, which is recognized as insurance premiums become due, amounted to approximately \$35,400 for the year ended June 30, 2005.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2005

Note 7 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Required Supplemental Information

Southeast Macomb Sanitary District

Employees' Retirement System Schedule of Funding Progress June 30, 2005

		(1)	(2)	(3)	(4)	(5)	(6)
		Net Assets	Pension	Percent	Unfunded	Annual	Unfunded
		Available	Benefit	Funded	PBO	Covered	PBO as a
As of		for	Obligation			Payroll	Percentage of
June 30		Benefits	(PBO)	(1) ÷ (2)	(2)-(1)	Payroll	Covered
							(4) ÷ (5)
1994	\$	656,648	\$ 659,755	99.53	\$ 3,107	\$ 301,934	1.03
1995		766,636	866,646	88.46	100,010	339,664	29.44
1996		838,573	953,307	87.96	114,734	301,324	38.08
1997		666,089	877,846	75.88	211,757	283,670	74.65
1998		249,124	289,160	86.15	40,036	270,977	14.77
1999		322,156	390,137	82.58	67,981	283,531	23.98
2000		341,316	468,637	72.83	127,321	331,778	38.38
2001		425,359	642,796	66.17	217,437	367,209	59.21
2002		508,368	689,752	73.70	181,384	284,931	63.66
2004*		506,143	927,973	54.54	421,830	353,845	119.21

* No actuarial valuation was completed as of June 30, 2003.

Other Supplemental Information

Southeast Macomb Sanitary District

Schedule of Operating Expenses Year Ended June 30, 2005

System Maintenance and Operation

Salaries and wages	\$ 404,464
Pension expense	104,738
Payroll taxes	27,945
Hospitalization	122,700
General insurance	51,255
Life insurance	1,186
Dental and optical insurance	1,427
Repairs and replacement	76,041
Telephone	4,357
Utilities	9,397
Office supplies and expense	4,084
Fuel and oil	7,098
Engineering	45,209
Miscellaneous expenses	<u>4,259</u>

Total system maintenance and operation **\$ 864,160**

General and Administrative

Board meetings	\$ 2,280
Professional fees	28,681
Miscellaneous expense	<u>3,774</u>

Total general and administrative **\$ 34,735**



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December 30, 2005

To the Board Members
Southeast Macomb Sanitary District
20001 Pleasant Avenue
St. Clair Shores, MI 48080

Dear Board Members:

We have recently completed our audit of the financial statements of Southeast Macomb Sanitary District for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the board members and others within the organization.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Southeast Macomb Sanitary District in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising internal controls that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Internal Controls

In planning and performing our audit of the financial statements of Southeast Macomb Sanitary District for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

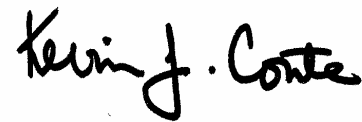
Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the District does not have an adequate segregation of accounting duties. We consider this item to be a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition noted above is a material weakness.

As always, we thank the board for the opportunity to serve. We would be happy to answer any questions you may have regarding the annual financial report and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Kevin J. Conte". The signature is written in a cursive, flowing style.

KEVIN J. CONTE